

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name BRANCH COUNTY MENTAL HEALTH AUTHORITY	County BRANCH
Audit Date 9/30/04	Opinion Date 12/22/04	Date Accountant Report Submitted to State: 1/20/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) RUMSEY & WATKINS, P.C.			
Street Address 20 TIBBITS PLAZA		City COLDWATER	State MI
Accountant Signature <i>Rumsey & Watkins P.C.</i>		ZIP 49036	Date 1/20/05

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Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Branch County Community Mental
Health Authority
Branch County, Michigan**

December 22, 2004

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Branch County Community Mental Health Authority as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Branch County Community Mental Health Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Branch County Community Mental Health Authority as of September 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

**Board of Directors
Branch County Community Mental
Health Authority
Branch County, Michigan**

December 22, 2004

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Branch County Community Mental Health Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



RUMSEY & WATKINS, P.C.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Branch County Community Mental Health Authority presents the following overview and analysis of financial activities during the past fiscal year. Branch County Community Mental Health Authority was created as a Mental Health Authority effective October 1, 2001.

Overview of Financial Statements

Two types of financial statements are provided: Government-wide and Fund financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of Authority's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Branch County Community Mental Health Authority, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds/General Fund has a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary Fund is an internal service fund which is held as a self-insurance against future risk. This fund consists of State of Michigan General Funds and accumulated interest and must be held for future risk or used to provide authorized services to eligible persons.

Fiduciary Fund is a fund held by the Authority in a trustee capacity or as an agent for the other funds of governments. The Authority uses this fund to accumulate funds for payment of compensated absences.

**BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

Comparison with Prior Year

Fiscal year 2003 revenues were \$8,862,961 compared to fiscal year 2004 revenues of \$9,074,793. This difference was mainly attributed to the fact that during fiscal year 2004, \$487,459 additional Medicaid funds were earned, as well as an increase of \$99,469 in local contract revenues. However, that increase was offset by a decrease in State General Funds in the amount of \$307,254, a decrease of \$35,178 in interest income, as well as a decrease of Area Agency on Aging Respite funds of \$41,630. Fiscal year 2003 expenses of \$8,754,887 compared to fiscal year 2004 expenses of \$8,954,499 represent an increase in staff to better serve the Medicaid population of Branch County, as well as meet the increased demand in administrative and reporting requirements imposed for managed care operations by the Department of Community Health.

Strength of Financial Position

Changes in financial position which help ensure the agency's future ability to provide services are:

	<u>Balance 09/30/03</u>	<u>Balance 09/30/04</u>	<u>Increase (Decrease)</u>
Internal Service Funds	\$ 654,806	\$ 138,882	\$ (515,924)
General Fund:			
Fund Balance - Undesignated	<u>993,641</u>	<u>1,113,935</u>	<u>120,294</u>
Total Fund Balance	<u><u>\$ 1,648,447</u></u>	<u><u>\$ 1,252,817</u></u>	<u><u>\$ (395,630)</u></u>

The Internal Service Funds together with the unrestricted fund balance of the General Funds represent an estimated 90 days of operations based on daily operational needs.

Analysis of differences Between Budgeted Original and Final Amounts Compared to Actual

Over the course of the year, The Authority revises the budget as it attempts to deal with unexpected changes in revenues and expenditures. An original budget was adopted in the first quarter of the fiscal year and changes were made throughout the year. A final budget was adopted before year end and both budgets are reflected in this report.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

About Fiscal Year 2004

Fiscal year 2004 was a year of continuing challenges and changes for the Authority as a member of a five county affiliation called Venture Behavioral Health, consisting of Barry, Berrien, Branch, Calhoun, and Van Buren counties. This membership was mandated by the state of Michigan for the distribution of Medicaid funding and was driven by Medicaid covered lives. Any county with less than 20,000 covered lives was forced to join with other counties in order to receive Medicaid monies. While Branch County Community Mental Health Authority receives Medicaid dollars through this Prepaid Inpatient Health Plan (PIHP) configuration, General Fund operations remain unchanged.

Due to the movement of the Medicaid contract and the subsequent risk to Venture Behavioral Health, \$512,070 of the Internal Service Fund, that was attributed to Medicaid contract, was transferred to Venture Behavioral Health in 2004. The Authority again participated in a local match program to draw down additional Medicaid funding. This was a contract mandated program. Participation in this program required a local match amount of \$110,459, the amount of local match required for 100% Medicaid services in fiscal year ended 2002.

The Authority remained conservative in spending in fiscal year 2004 due to the ongoing threat of impending budget reductions. This conservative stance has been a part of the Authority's culture on an ongoing basis. However, in 2004 additional staff was hired in the areas of Case management, Home Based services, and Administration. This was to meet the increasing need of Branch County Medicaid clients, as well as increased reporting/managed care functions required by the Department of Community Mental Health. Fortunately, budget cuts in General Fund were offset with an increase in Medicaid, and services and operations remained unchanged.

About the Future

The State of Michigan is still projecting a budget shortfall both in fiscal year 2005 and 2006. In addition, Medicaid and General Fund funding streams are being scrutinized and revised at this time. It is currently unknown how further cuts and these funding stream revisions will affect the Authority. Therefore, we continue to operate very modestly. Client services are of the utmost priority as we continue to look for ways to decrease expenditures. Fiscal year 2005 will also be a challenging year as changes in revenues continue to threaten operations.

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

	Governmental Activities
ASSETS	
Cash and investments	\$ 2,103,720
Receivables:	
Accounts receivable	58,649
Accrued interest receivable	9,895
Due from contract agencies	99,123
Due from State of Michigan	10,880
Due from other governmental units	112,853
Prepaid expenses	101,577
Capital assets, less accumulated depreciation of \$405,139	<u>87,078</u>
 Total assets	 2,583,775
LIABILITIES	
Accounts payable	169,872
Due to the State of Michigan	333,457
Due to Venture Behavioral Health	86,085
Due to contract agencies	310,185
Accrued expenses	156,941
Deferred revenue	187,340
Long term liabilities:	
Compensated absences	<u>171,768</u>
 Total liabilities	 1,415,648
NET ASSETS	
Investment in capital assets	87,078
Unrestricted	<u>1,081,049</u>
 Total net assets	 <u><u>\$ 1,168,127</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Functions/Programs	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating / Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental activities				
Health & Welfare - Mental Health	<u>\$ 8,986,113</u>	<u>\$ 7,393,363</u>	<u>\$ 324,284</u>	\$ (1,268,466)
General revenues:				
				1,321,063
				38,679
				<u>4,531</u>
				1,364,273
				<u>(512,070)</u>
				(416,263)
				<u>1,584,390</u>
				<u>\$ 1,168,127</u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2004**

	Governmental Fund Types
ASSETS	
Cash and investments	\$ 1,949,319
Accounts receivable	58,649
Due from contract agencies	99,123
Due from State of Michigan	10,880
Due from other governmental units	112,853
Due from other funds	13,365
Accrued interest receivable	7,910
Prepaid expenses	101,577
	<hr/>
Total assets	<u>\$ 2,353,676</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 169,872
Due to State of Michigan	333,457
Due to Venture Behavioral Health	81,946
Due to contract agencies	310,185
Accrued expenses	156,941
Deferred revenue	187,340
	<hr/>
Total liabilities	1,239,741
FUND BALANCE	
Undesignated	<u>1,113,935</u>
Total liabilities and fund balance	<u>\$ 2,353,676</u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
SEPTEMBER 30, 2004**

Total Fund Balance - Governmental Funds	\$ 1,113,935
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in funds:

The cost of the capital assets	492,217
Accumulated depreciation	<u>(405,139)</u>

Total capital assets not reported in funds	87,078
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An internal service fund is used by management to accumulate
resources for the shared risk arrangement with the State
of Michigan for future mandated services. The assets and
liabilities of the internal service fund are included in governmental
activities in the statement of net assets:

Net assets of governmental activities accounted for in the internal service fund	138,882
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Long-term liabilities are not due and payable in the current period
and are not reported in the governmental funds:

Compensated absences	<u>(171,768)</u>
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Total Net Assets - Governmental activities	<u><u>\$ 1,168,127</u></u>
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**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

GOVERNMENTAL FUNDS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Governmental Fund
REVENUES	
Local sources	\$ 1,022,645
State sources	<u>8,052,148</u>
Total revenues	9,074,793
EXPENDITURES	
Mental Health	8,922,999
Capital outlay	<u>31,500</u>
Total expenditures	<u>8,954,499</u>
Excess of revenues over expenditures	120,294
FUND BALANCE - BEGINNING	<u>993,641</u>
FUND BALANCE - ENDING	<u><u>\$ 1,113,935</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Net change in Fund Balance - Total Governmental Funds	\$ 120,294
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(43,317)
Capital outlay	<u>31,500</u>
Total	(11,817)
An internal service fund is used by management to accumulate resources for the shared risk arrangement with the State of Michigan for future mandated services. The net revenue (expense) of the internal service fund are included in governmental activities in the statement of net assets:	(515,924)
Increases in compensated absences are reported as expenditures when financial resources are used in governmental funds in accordance with GASB Interpretation No. 6:	<u>(8,816)</u>
Change in Net Assets of Governmental Activities	<u>\$ (416,263)</u>

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**PROPRIETARY FUNDS
STATEMENT OF PROPRIETARY NET ASSETS
SEPTEMBER 30, 2004**

	Governmental Activities Internal Service Fund
ASSETS	
Cash and investments	\$ 154,401
Accrued interest receivable	<u>1,985</u>
Total assets	156,386
LIABILITIES	
Due to other funds	13,365
Due to contract agency	<u>4,139</u>
Total liabilities	17,504
NET ASSETS	
Unrestricted	<u><u>\$ 138,882</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Governmental Activities Internal Service Fund
NONOPERATING REVENUES (EXPENSES)	
Interest earned	\$ 11,096
Unrealized gains (loss) on investments	(3,969)
Investment fees	(1,185)
Local match returned to general fund	(9,796)
Transfer to other governmental unit	<u>(512,070)</u>
Total nonoperating revenues (expenses)	<u>(515,924)</u>
CHANGE IN NET ASSETS	(515,924)
NET ASSETS - BEGINNING	<u>654,806</u>
NET ASSETS - ENDING	<u><u>\$ 138,882</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Earnings from operations	\$ -
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfer to other governmental unit	(507,931)
CASH FLOW FROM INVESTING ACTIVITIES:	
Interest received	11,201
Sale of investments	51,000
Investment fees	(17)
Net cash provided by investing activities	62,184
NET INCREASE (DECREASE) IN CASH	(445,747)
CASH - BEGINNING	446,367
CASH - ENDING	\$ 620

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

SEPTEMBER 30, 2004

	<u>Agency Fund</u>
ASSETS	
Cash	<u>\$ 171,768</u>
LIABILITIES	
Accrued expenses	<u>\$ 171,768</u>

See Notes to Financial Statements

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The Branch County Community Mental Health Authority provides services under the name of Pines Behavioral Health Services. The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America as applicable to local governmental units. The following is a summary of significant policies:

REPORTING ENTITY:

On October 1, 2001, the Authority was established under MCL 330.1205, Section 205. The Authority has the responsibility of providing mental health services to the local residents of Branch County.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Authority's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree of which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants, who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION:

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary and Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION:

GOVERNMENTAL FUNDS

General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

PROPRIETARY FUND

Internal Service Fund is an unbudgeted fund for the shared risk arrangement with the State of Michigan for future mandated services.

FIDUCIARY FUNDS

Agency Fund is used to account for assets held by the Authority in a trustee capacity or as an agent for the other funds of governments. The Agency Fund is custodial in nature, assets equal liabilities, and do not involve the measurement of results of operations. The Authority established the Agency Fund to accumulate funds for the future payment of compensated absences.

ASSETS, LIABILITIES, AND NET ASSETS

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Trade receivables are shown net of an allowance for uncollectible amounts.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in government-wide and fund financial statements.

Inventories – The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities do not fluctuate from year to year. The cost of supplies are expensed when purchased.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES, AND NET ASSETS – Continued

Capital Assets – Capital assets, which include furniture, fixtures and computers, are reported in the applicable governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Authority does not have infrastructure-type assets.

Furniture, fixtures and computers are depreciated using the straight-line method over the following useful lives:

Furniture and fixtures	5-10 Years
Computers	5 Years

Compensated Absences – The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which amounts for employees who are currently eligible to receive termination payments are included.

Comparative Data/Reclassifications – Comparative data is included in the Authority's Management Discussion and Analysis and Supplemental Information.

Accounting Change – Effective October 1, 2002, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB No. 34). Changes to the Authority's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Authority's overall financial position and results of operations has been included.

Government-wide financial statements, statement of net assets and statement of activities, prepared using full accrual accounting for all the Authority's activities have been provided.

Capital assets in the governmental activities column of the statement of net assets include assets totaling \$389,359 previously reported in the General Fixed Assets Account Group. Capital assets at October 1, 2002, previously reported in the General Fixed Assets Account Group, reflect historical cost of the Authority's capital assets at that date.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF BUDGETING:

The Authority adopted their annual budget based on the modified accrual method of accounting. Revenues and expenditures were adopted and amended by the Board by the line item level. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are reflected in the official minutes of the Board, and are not made after year end as dictated by law. The Board did not include a beginning fund balance within the approved budget. Amendments were made to the budget during the year.

ENCUMBRANCE ACCOUNTING:

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

NOTE B – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Authority uses financial institutions and their trust department for cash and investment purposes, which is in accordance with statutory authority. The accounts maintained are checking, savings, certificates of deposit and U.S. Government Obligations. The Authority uses a pooled money market account for the General and Fiduciary Funds. The respective transactions are accounted for separately within the proper fund.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE B – DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2004, the pooled money market account is as follows:

General Fund	\$ 434,171
Fiduciary Fund	<u>171,768</u>
Total pooled money market account	<u>\$ 605,939</u>

The Authority does maintain other separate checking and savings accounts for specific funds. The interest rates of the checking and savings accounts are at variable daily rates.

At September 30, 2004, the carrying amount of the Authority's deposits was \$1,507,363 and the bank balance was \$1,575,104. The differences between the balances are the result of checks issued by the Authority but not yet presented for payment and deposits made by the Authority but not yet recorded by the bank. The risk exposure of the cash and restricted cash, at September 30, 2004, is as follows:

Insured	\$ 100,000
Uninsured	<u>1,475,104</u>
Total	<u>\$ 1,575,104</u>

Investments are categorized into three categories of credit risk:

Category 1 - Insured or registered, or securities held by the Authority or its agent in the Authority's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE B – DEPOSITS AND INVESTMENTS - Continued

The Authority's investments carried at fair value as of September 30, 2004 are as follows:

Certificates of deposit	\$ 349,000
U.S. Government Obligations	<u>419,125</u>
Total	<u>\$ 768,125</u>

The certificates of deposit are currently earning interest at a rate of 2.50% to 4.20% and are considered a category 1 investment.

The U.S. Government Obligations are earning interest at rates of 4.37% to 5.25% and are considered a category 3 investment.

NOTE C – ACCOUNTS RECEIVABLE

The Authority allows their patients, who predominantly reside in the County of Branch, to charge their portion of fees for services. As of September 30, 2004, patient accounts receivable amounted to \$15,480.

For patients that have medicare and private insurance, the Authority bills the appropriate agencies for their portion of the services. As of September 30, 2004, medicare and private insurance accounts receivable amounted to \$43,169.

NOTE D – DUE TO STATE OF MICHIGAN

The Authority entered into a managed mental health supports and services contract with the Department of Community Health, a department of the State of Michigan, to provide mental health services to the residents of Branch County and for the funding of costs incurred for county residents in state facilities.

The Authority was funded by the State of Michigan for the net matchable costs incurred in providing mental health services to the residents of Branch County. The entitlement earned under the contract was \$1,418,342 in 2004. As of September 30, 2004, \$333,457 was due to the State of Michigan, which represents the excess funds received over the amount earned under the contracts for 2004.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE E – DUE TO VENTURE BEHAVIORAL HEALTH

In years prior to fiscal year 2003, the State of Michigan contracted directly with each county's mental health agency for Medicaid managed specialty support and services. Beginning in the fiscal year 2003, the State of Michigan separated the state into regions and bid the contracts for these services.

The Authority formed an affiliation under the Intergovernmental Agreement for the Transfers and Responsibilities Act (IFTRA) with other Community Mental Health Authority's. The affiliation named Venture Behavioral Health was successful in acquiring the 2002-2004 Medicaid managed specialty support and services contract with the State of Michigan.

Venture Behavioral Health funded the Authority for the net matchable costs incurred in providing Medicaid managed specialty support and services to the residents of Branch County. The revenue earned was \$6,439,919 for the year ended September 30, 2004. As of September 30, 2004, \$86,085 was due to Venture Behavioral Health, which represents the excess funds, advanced over the amount earned during the year ended September, 30, 2004.

NOTE F– DUE FROM (TO) OTHER FUNDS

Interfund receivables/payables, as of September 30, 2004, are as follows:

General Fund:

Due from the Internal Service Fund

\$ 13,365

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004****NOTE G – CAPITAL ASSETS**

Capital asset activity of the Authority's governmental activities was as follows:

	Balance 10/01/03	Additions	Disposals	Balance 09/30/04
GROUP:				
Furniture and fixtures	\$ 260,671	\$ -	\$ -	\$ 260,671
Computers	200,046	31,500	-	231,546
Subtotal	460,717	31,500	-	492,217
ACCUMULATED DEPRECIATION:				
Furniture and fixtures	225,571	13,575	-	239,146
Computers	136,251	29,742	-	165,993
Total accumulated depreciation	361,822	43,317	-	405,139
Net Capital Assets	<u>\$ 98,895</u>	<u>\$ (11,817)</u>	<u>\$ -</u>	<u>\$ 87,078</u>

Depreciation expense was charged to activities of the Authority as follows:

GOVERNMENTAL ACTIVITIES:

Health & Welfare - Mental Health \$ 43,317

NOTE H – DEFERRED REVENUE

The Authority entered into a grant with the State of Michigan for local funding under Public Act 423. As of September 30, 2004, \$58,649 was estimated as receivable from insurance companies, Medicare and clients are for prior charges. These charges, if collected, would have been included in the formula under the grant provisions and, therefore, are being deferred until collected.

Under the terms of the contract with the Department of Community Health, the Authority is allowed to carryover unexpended state revenue up to 5 percent of the Authority's state share of their operating budget. As of September 30, 2004, \$77,001 was recorded as deferred revenue.

The Authority has received \$51,690 under other various grants agreements which will be expended in future years and is recorded as deferred revenue.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2004

NOTE I – COMPENSATED ABSENCES

The Authority allows employees to accumulate sick and vacation days based on their contracts. The accumulated compensated absences represent the estimated liability to be paid to the employees under the various contracts. The Authority has established the agency fund for the accumulation of funding for the payments of these benefits.

NOTE J – LEASE AGREEMENTS

The Authority has two noncancellable leases for office facilities with the County of Branch. One lease, which expires December, 2010 is to be paid in monthly installments which vary according to the lease agreement. The current payment is \$4,188 per month. The other building lease, which expires March, 2011 is to be paid in monthly installments of \$3,173.

The Authority has two noncancellable leases for building facilities with ADAPT, Incorporated. The leases, which expire May, 2009 and September, 2010 are to be paid in monthly installements of \$1,750 and \$1,300, respectively.

The Authority has two noncancellable leases for building facilities with the State of Michigan. The leases, which expire July, 2010 and November, 2012, are to be paid in monthly installments of \$2,138 and \$1,975, respectively.

The following is a schedule by years of future minimum payments required under the lease agreements:

Year ending September 30 :

2005	\$ 175,004
2006	176,484
2007	175,174
2008	176,255
2009	168,565
2010 and after	<u>235,866</u>
Total lease payments	<u>\$ 1,107,348</u>

Total rental expense included in the excess of revenues over expenditures amounted to \$189,314 for the year ended September 30, 2004.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTE K – RETIREMENT PROGRAM

The Authority maintains a 401(k) plan, and is administered by a financial institution's trust department. Plan provisions are established or amended by Board resolution. Under the plan, employees may elect to defer a portion of their wages, subject to Internal Revenue Service limits. The Authority contributes a match of 50% of the employee deferral up to the maximum of 5% of wages. The Authority may make discretionary contributions. For the year ended September 30, 2004, actual contributions by the Authority and plan participants amounted to \$92,757 and \$86,969 respectively.

NOTE L – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The Authority has purchased commercial insurance for the coverage of the above discussed events.

NOTE M – TRANSFER TO OTHER GOVENMENTAL UNITS

The Authority maintains an Internal Service Fund to accumulate resources for the shared risk arrangement for future mandated services. With the State of Michigan's change in the funding of the Medicaid managed specialty support and services, see Note E, the Authority was required to transfer \$512,070 to the Venture Behavioral Health during the year ended September 30, 2004 for the resources accumulated under the prior contract.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Local sources	\$ 1,271,723	\$ 1,280,381	\$ 1,022,645
State sources	<u>8,449,228</u>	<u>8,404,395</u>	<u>8,052,148</u>
Total revenues	9,720,951	9,684,776	9,074,793
EXPENDITURES			
Mental health	9,679,951	9,674,776	8,922,999
Capital outlay	<u>41,000</u>	<u>10,000</u>	<u>31,500</u>
Total expenditures	<u>9,720,951</u>	<u>9,684,776</u>	<u>8,954,499</u>
Excess of revenues over expenditures	-	-	120,294
FUND BALANCE - BEGINNING	<u>-</u>	<u>-</u>	<u>993,641</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,113,935</u>

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
BALANCE SHEETS

	September 30,	
	2004	2003
ASSETS		
Cash and investments	\$ 1,949,319	\$ 3,101,643
Accounts receivable	58,649	88,812
Due from contract agencies	99,123	111,177
Due from State of Michigan	10,880	18,279
Due from other governmental units	112,853	105,129
Due from other funds	13,365	2,401
Accrued interest receivable	7,910	12,883
Prepaid expenses	101,577	56,309
Total assets	<u>\$ 2,353,676</u>	<u>\$ 3,496,633</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 169,872	\$ 277,958
Due to State of Michigan	333,457	145,214
Due to Venture Behavioral Health	81,946	1,447,715
Due to contract agencies	310,185	309,268
Accrued expenses	156,941	116,271
Deferred revenue	187,340	206,566
Total liabilities	1,239,741	2,502,992
FUND BALANCE		
Undesignated	1,113,935	993,641
Total liabilities and fund balance	<u>\$ 2,353,676</u>	<u>\$ 3,496,633</u>

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENTS OF REVENUES AND EXPENDITURES

	Year Ended September 30,	
	2004	2003
REVENUES		
Local revenue:		
Contract agencies	\$ 732,790	\$ 727,938
County allocation	180,000	180,000
Prevention program	63,976	58,215
Interest earned	45,942	81,120
Unrealized loss on investments	(14,390)	(13,362)
Other	14,327	8,798
State revenue:		
Department of Community Health	1,418,342	1,640,402
Specialty managed care services	6,439,919	5,952,460
P.A. 423	104,767	104,652
Area agency grant	29,633	71,263
Family Independence Agency	39,269	38,965
OBRA evaluation fees	16,493	8,785
Title XX replacement	3,725	3,725
Total revenues	<u>9,074,793</u>	<u>8,862,961</u>
EXPENDITURES		
Client service management	426,543	817,144
Agency operations	609,398	-
Inpatient services	258,660	277,802
Outpatient services	1,125,470	1,821,379
Developmentally disabled - outpatient	-	247,917
Day program services	1,250,958	807,006
OBRA active treatment	43,275	34,599
Institutional care	125,908	121,965
Specialized residential services	3,126,087	2,762,953
Prevention grant	127,951	161,818
CHC Behavioral health services	543,145	515,917
Family support services	113,225	157,235
Assertive community treatment	210,248	402,123
Board administration	860,884	482,544
Home based services	22,288	34,026
Medicaid local funds	110,459	110,459
Total expenditures	<u>8,954,499</u>	<u>8,754,887</u>
Excess revenues over expenditures	<u>\$ 120,294</u>	<u>\$ 108,074</u>

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENTS OF EXPENDITURES

	Year Ended September 30,	
	2004	2003
Salaries	\$ 2,422,508	\$ 2,205,566
Pension	92,757	83,225
Employee insurance	344,286	337,461
Payroll taxes	170,779	156,693
Unemployment benefits	-	20
Workers compensation	21,848	14,180
Office supplies	32,185	20,289
Operating supplies	43,005	42,538
Medical supplies	13,751	9,219
Board per diem	9,250	8,435
Membership and dues	12,779	19,196
Day programming	1,255,817	1,229,190
Inpatient services	384,569	399,767
Residential services	3,045,157	3,035,059
Clinical services	8,820	21,164
Waiver aide services	15,338	26,509
Community waiver	38,349	33,758
Respite	65,597	54,929
Professional services	281,005	378,231
Telephone	37,803	39,769
Education and workshops	10,207	13,107
Travel	54,594	58,111
Printing and publishing	20,824	3,361
Insurance and bonds	120,357	88,664
Utilities	25,741	27,009
Repairs and maintenance	60,591	44,441
Lease expense	189,314	198,960
Miscellaneous	16,738	9,664
Public relations	9,755	12,146
Equipment	31,500	71,358
Medicaid local funds	110,459	110,459
Compensated absences contribution	8,816	2,409
Total expenditures	<u>\$ 8,954,499</u>	<u>\$ 8,754,887</u>

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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Phone (517) 279-7931 • FAX (517) 278-7087

December 22, 2004

Branch County Community Mental
Health Authority
Branch County, Michigan

In the planning and performing our audit of the financial statements of the Branch County Community Mental Health Authority as of and for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Branch County Community Mental Health Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be material weaknesses.

During the course of the audit, we noted that bank reconciliations for the General Fund bank accounts were not completed on a monthly basis. We recommend that the bank reconciliations be completed on a monthly basis and the reconciled balance be agreed to the general ledger balance.

We also would like to comment on the following item:

It was noted that the activity for the Internal Service Fund was summarized on a spreadsheet however, the Internal Service Fund was not posted to a general ledger or summarized in a trial balance. We recommend that the activity for the Internal Service Fund be posted throughout the year in a separate general ledger.

This report is intended solely for the information and use of the Branch County Community Mental Health Authority, State of Michigan, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

After reviewing this letter, we would be glad to discuss any of these matters further with you and assist in the implementation of any corrective actions.

A handwritten signature in cursive script, appearing to read "Rumsey & Watkins, P.C.", is positioned above the printed name.

RUMSEY & WATKINS, P.C.